Consolidated Financial Statements of

KNOWLEDGE NETWORK CORPORATION

Year ended March 31, 2016

KPMG

KPMG LLP
Metro Tower I
4710 Kingsway, Suite 2400
Burnaby BC V5H 4M2
Canada
Telephone (604) 527-3600
Fax (604) 527-3636

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Knowledge Network Corporation

To the Minister of Technology, Innovation and Citizens' Services

We have audited the accompanying consolidated financial statements of Knowledge Network Corporation, which comprise the Consolidated Statement of Financial Position as at March 31, 2016 and the Consolidated Statements of Operations, Remeasurement Gains and Losses, Changes in Net Financial Assets and Cash Flows for the year then ended, and notes and schedules, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Knowledge Network Corporation as at March 31, 2016, and its results of operations, its changes in net financial assets, and its cash flows for the year then ended in accordance with the basis of accounting as described in Note 2 to the financial statements.

Report on Other Legal and Regulatory Requirements

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

May 13, 2016

Burnaby, Canada

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
Financial assets:		
Cash (note 3(a))	$ 1,457,891	$ 2,900,292
Accounts receivable (note 9)	292,245	677,672
Portfolio investments (note 3(b))	1,261,853	456,381
	3,011,989	4,034,345
Liabilities:		
Accounts payable and accrued liabilities	$ 906,276	$ 1,004,377
Income taxes payable	8,957	57,500
Deferred revenue, projects	305,275	298,508
Deferred contributions (note 4)	2,013,693	2,323,958
	3,234,201	3,684,343
Net financial assets (debt)	(222,212)	350,002
Non-financial assets:		
Broadcast rights (note 5)	$ 9,113,720	$ 8,446,201
Tangible capital assets (note 6)	2,374,730	2,588,627
Prepaid expenses	88,839	54,741
Endowment investments (note 3(b))	3,965,059	2,842,332
	15,542,348	13,931,901
Commitments (note 8)		
Accumulated surplus (note 13)	$ 15,320,136	$ 14,281,903
Accumulated surplus represented by:		
Accumulated surplus	$ 15,571,183	$ 13,991,349
Accumulated remeasurement gains (losses)	(251,047)	290,554
	$ 15,320,136	$ 14,281,903

See accompanying notes to consolidated financial statements.

Approved on behalf of:

Nini Baird CM,
Chair of the Board

Rudy Buttignol CM,
President and Chief Executive Officer

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

	Budget (note 14)	2016	2015
Revenue:			
Province of British Columbia operating grants	$ 6,259,506	$ 6,259,506	$ 6,259,512
Donations and sponsorships	3,525,000	4,025,158	3,905,723
Specialty TV channel subscription fees	1,563,000	1,483,427	1,545,652
Amortization of deferred contributions (note 4)	454,000	335,265	510,949
Endowment investment income	60,000	490,873	163,664
Other	324,000	345,018	344,753
	12,185,506	12,939,247	12,730,253
Expenses (note 10):			
Programming and presentation	1,821,282	1,916,336	1,924,646
Marketing and development	2,172,591	2,142,664	2,034,234
Broadcast platforms and corporate IT	2,009,995	2,380,195	2,059,267
General	720,457	537,922	438,999
Amortization of broadcast rights	3,000,000	2,845,581	3,027,128
Administration	1,194,181	1,268,133	1,177,455
Specialty TV channel	1,157,285	1,034,453	1,042,499
	12,075,791	12,125,284	11,704,228
Annual surplus from operations	109,715	813,963	1,026,025
Endowment contributions received	300,000	765,871	1,148,748
Annual surplus	409,715	1,579,834	2,174,773
Accumulated surplus, beginning of year	13,991,349	13,991,349	11,816,576
Accumulated surplus, end of year	$ 14,401,064	$ 15,571,183	$ 13,991,349

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION,

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Accumulated remeasurement gains, beginning of year	$ 290,554	$ 202,647
Remeasurement gains (losses) attributable to investments	(243,555)	175,655
Amounts reclassified to statement of operations:		
Realized gain on investment	(298,046)	(87,748)
Net remeasurement gains (losses) for the year	(541,601)	87,907
Accumulated remeasurement gains (losses), end of year	$ (251,047)	$ 290,554

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Changes in Net Financial Assets (Debt)

Year ended March 31, 2016, with comparative information for 2015

	Budget (note 14)	2016	2015
Annual surplus	$ 409,715	$ 1,579,834	$ 2,174,773
Net remeasurement gains (losses) for the year	-	(541,601)	87,907
	409,715	1,038,233	2,262,680
Acquisition of tangible capital asset	(90,000)	(146,229)	(220,814)
Amortization of tangible capital assets	437,250	360,126	392,307
	347,250	213,897	171,493
Acquisition of broadcast rights	(3,448,516)	(4,169,508)	(3,133,686)
Amortization of broadcast rights	3,706,500	3,501,989	3,640,975
	257,984	(667,519)	507,289
Acquisition of investments	(300,000)	(1,122,727)	(1,167,879)
Acquisition of prepaid expenses	-	(88,839)	(54,741)
Use of prepaid expenses	-	54,741	50,702
	-	(34,098)	(4,039)
Increase (decrease) in net financial assets	714,949	(572,214)	1,769,544
Net financial assets (debt), beginning of year	350,002	350,002	(1,419,542)
Net financial assets (debt), end of year	$ 1,064,951	$ (222,212)	$ 350,002

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided (used by):		
Operations:		
Annual surplus	$ 1,579,834	$ 2,174,773
Items not involving cash:		
Gain on sale of investments	(298,046)	(87,748)
Amortization of deferred contributions	(335,265)	(510,949)
Amortization of capital assets	360,126	392,307
Amortization of broadcast rights	3,501,989	3,640,975
Changes in non-cash working capital:		
Accounts receivable	385,427	495,461
Prepaid expenses	(34,098)	(4,039)
Accounts payable and accruals	(98,101)	354,883
Income taxes receivable/payable	(48,543)	17,258
Deferred revenue, projects	6,767	15,733
	5,020,090	6,488,654
Financing:		
Contributions received for broadcast rights	25,000	148,588
Investing:		
Purchase of portfolio investments	(2,171,754)	(919,592)
Capital:		
Purchase of tangible capital assets	(146,229)	(220,814)
Purchase of broadcast rights	(4,169,508)	(3,133,686)
	(4,315,737)	(3,354,500)
Increase (decrease) in cash	(1,442,401)	2,363,150
Cash, beginning of year	2,900,292	537,142
Cash, end of year	$ 1,457,891	$ 2,900,292

See accompanying notes to consolidated financial statements.

1. Nature of operations:

Knowledge Network Corporation (the "Corporation") was incorporated as a Crown corporation in 2009 under the Knowledge Network Corporation Act, a statute of the Province of British Columbia.

The Corporation is British Columbia's public broadcaster across multiple platforms including television, web and mobile. The principal source of funding is from the Ministry of Technology, Innovation and Citizens' Services.

The Corporation is a registered charity under the provisions of the Income Tax Act of Canada and is not subject to income taxes. The Corporation's 50% owned subsidiary is subject to income taxes.

2. Significant accounting policies:

(a) Basis of accounting:

These consolidated financial statements are prepared by management in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. This Section requires that the consolidated financial statements be prepared in accordance with Canadian public sector accounting standards established by the Canadian Public Sector Accounting Board, except in regard to the accounting for broadcast rights and government transfers.

The Corporation has obtained approval to continue to capitalize and amortize broadcast rights as non-financial assets. Canadian public sector accounting standards do not recognize intangible assets in their accounting framework and require that such amounts be expensed as incurred.

The Budget Transparency and Accountability Act and its related regulations require the Corporation to account for government transfers stipulated for the acquisition of tangible capital assets by deferring and amortizing them to income on the same basis as the related amortization expense for the assets. As these transfers do not contain additional stipulations that create a liability, Canadian public sector accounting standards would require these grants to be reported as revenue when spent.

The consolidated financial statements reflect the assets, liabilities, revenue, expenses, and accumulated surplus of the reporting entity, which includes the proportionate consolidation of the Corporation's 50% owned subsidiary, Knowledge-West Communications Corporation ("KWCC"). Inter-entity balances and transactions have been eliminated on consolidation.

(b) Revenue recognition:

Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

2. Significant accounting policies (continued):

(b) Revenue recognition (continued)

Subscription fees are recorded on an accrual basis as services are provided, except when the amount cannot be determined with a reasonable degree of certainty. Interest and other revenues are recognized when earned.

(c) Tangible capital assets:

Purchased tangible capital assets are recorded at cost. Equipment, furniture and fixtures are amortized over the estimated useful life on the declining balance basis at rates ranging from 10% to 30% per annum, computer software is amortized over the estimated useful life on the declining balance basis at 50%, and leasehold improvements are amortized on a straight-line basis over the term of the lease.

(d) Deferred contributions for capital assets and broadcast rights:

Funding received from the Province of British Columbia specifically for the acquisition of tangible capital assets is recorded as deferred contributions and is recognized as revenue in the statement of operations on the same basis as the amortization charged on the assets purchased with the funding. This accounting treatment is not consistent with the requirements of Canadian public sector accounting standards, which require that government transfers be recognized as revenue when approved by the transferor and eligibility criteria have been met, unless the transfer contains a stipulation that creates a liability, in which case the transfer is recognized as revenue when or over the period that the liability is extinguished.

(e) Broadcast rights:

Broadcast rights are recorded at cost and amortized over the period the broadcast is authorized for (generally 4 to 6 years).

(f) Financial instruments:

Derivatives and equity instruments quoted in an active market are measured at fair value. The Corporation measures other specific financial instruments at cost or amortized cost to correspond with how they are evaluated and managed.

Financial instruments measured at fair value are classified as level one, two or three for the purposes of describing the basis of the inputs used to measure the fair values, as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm’s length transaction.

2. Significant accounting policies (continued):

(f) Financial instruments (continued):

Unrealized gains and losses from changes in the fair value of financial instruments are recorded in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations.

For financial instruments measured using amortized cost, amortized cost is defined as the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus cumulative amortization using the effective interest method and minus any impairment losses. The effective interest rate method is used to determine interest revenue or expense.

For portfolio investments measured at cost, the cost method records the initial investment at cost and earnings from such investments are recognized only to the extent received or receivable. When an investment is written down to recognize an impairment loss, the new carrying value is deemed to be the new cost basis for subsequent accounting purposes.

Interest and dividends attributable to financial instruments are reported in the statement of operations.

Financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations and any related fair value changes previously recorded in the statement of remeasurement gains and losses are reversed to the extent of the impairment. Impairment losses are not reversed for a subsequent increase in value.

Transaction costs are a component of cost for financial instruments measured using cost or amortized cost.

Transaction costs are expensed for financial instruments measured at fair value.

The Corporation has designated its financial instruments as follows:

(i) Cash

Cash includes cash in the bank and is measured at fair value.

(ii) Short-term investments

Short-term investments are accounted for as portfolio investments. Investments quoted in an active market are reported at fair value and other investments are recorded at cost or amortized cost. These investments are highly liquid and held for the purpose of meeting short-term cash commitments. Investments reported at fair value recognize any changes in fair value in the statement of remeasurement gains and losses.

2. Significant accounting policies (continued):

(f) Financial instruments (continued):

(iii) Market securities

Equity and debt investments quoted in an active market are reported at fair value. The Corporation has a diversified securities portfolio that includes short-term deposits, bonds and equities. Market securities are accounted for as portfolio investments and are reported at fair value with changes in fair value recognized in the statement of remeasurement gains and losses.

(iv) Other financial assets and financial liabilities

Other assets and accounts payable and accruals are measured at amortized cost using the effective interest method.

(g) Measurement uncertainty:

The preparation of financial statements in accordance with the framework described in note 2(a) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the year then ended. Significant areas of management estimate include the determination of tangible capital assets and broadcast rights and the related recognition of deferred contributions, and valuation of accounts receivable. Actual results could differ from those reported.

(h) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies, are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses. In the period of settlement, realized foreign exchange gains and losses are recognized in the statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

(i) Income taxes:

KWCC uses the taxes payable method to account for income taxes whereby the expense (income) of the period consists only of the cost (benefit) of current income taxes for that period, determined in accordance with the rules established by the taxation authorities

3. Cash and investments:

(a) Cash:

The Corporation's bank accounts are held at one Canadian chartered bank. Interest is earned at prime minus 1.95% and is paid on a monthly basis. As at March 31, 2016, cash includes an amount of USD $183,009 (2015 – USD $76,368).

(b) Investments:

	2016	2015
Fixed income	$ 1,711,668	$ 364,188
Common shares	2,387,557	2,739,307
Mutual funds	1,007,026	19,105
Other	120,661	176,113
	$ 5,226,912	$ 3,298,713

	2016	2015
Portfolio investments	$ 1,261,853	456,381
Endowment investments	3,965,059	2,842,332
	$ 5,226,912	$ 3,298,713

Mutual funds consist of money market funds which are redeemable at any time.

4. Deferred contributions

(a) Capital assets:

Deferred contributions related to capital assets represents the unamortized amount of grants received for the purchase of capital assets.

	2016	2015
Balance, beginning of year	$ 1,480,796	$ 1,693,096
Less: amounts recognized as revenue	(184,893)	(212,300)
Balance, end of year	$ 1,295,903	$ 1,480,796

4. Deferred contributions (continued):

(b) Broadcast rights:

Deferred contributions related to broadcast rights represent the unamortized amount of funds received for the acquisition of programs. Amortization of deferred contributions is recorded as revenue.

	2016	2015
Balance, beginning of year	$ 843,162	$ 993,223
Contribution received	25,000	148,588
Amounts recognized as revenue	(150,372)	(298,649)
Balance, end of year	$ 717,790	$ 843,162
Deferred contributions, end of year	$ 2,013,693	$ 2,323,958

5. Broadcast rights:

	2016	2015
Cost:		
Opening balance	$ 17,117,694	$ 15,577,937
Additions	4,169,508	3,133,686
Expired rights	(3,119,998)	(1,593,929)
	18,167,204	17,117,694
Accumulated amortization:		
Opening balance	$ 8,671,493	$ 6,624,447
Amortization (i)	3,501,989	3,640,975
Expired rights	(3,119,998)	(1,593,929)
	9,053,484	8,671,493
Net book value	$ 9,113,720	$ 8,446,201

(i) Amortization expense for broadcast rights is presented on the Statement of Operations as:

	2016	2015
Amortization of broadcast rights	2,845,571	3,027,128
Specialty TV channel expenses	656,418	613,847
	$ 3,501,989	$ 3,640,975

6. Tangible capital assets:

	Furniture and fixtures	Computer equipment	Equipment	Software	Broadcast network equipment	Leasehold improvements	2016
Cost:							
Opening balance	$ 880,545	$ 3,051,757	$ 2,396,439	$ 419,236	$ 13,710,609	$ 37,695	$ 20,496,281
Additions	-	-	-	-	146,229	-	146,229
Closing balance	880,545	3,051,757	2,396,439	419,236	13,856,838	37,695	20,642,510
Accumulated amortization:							
Opening balance	$ 782,999	$ 2,686,421	$ 2,357,099	$ 388,854	$ 11,663,527	$ 28,754	$ 17,907,654
Amortization	9,754	73,067	5,901	15,191	254,424	1,788	360,126
Closing balance	792,753	2,759,488	2,363,000	404,045	11,917,951	30,542	18,267,780
Net book value	$ 87,792	$ 292,269	$ 33,439	$ 15,191	$ 1,938,887	$ 7,153	$ 2,374,730

	Furniture and fixtures	Computer equipment	Equipment	Software	Broadcast network equipment	Leasehold improvements	2015
Cost:							
Opening balance	$ 880,545	$ 3,005,496	$ 2,396,439	$ 391,698	$ 13,563,594	$ 37,695	$ 20,275,467
Additions	-	46,261	-	27,538	147,015	-	220,814
Closing balance	880,545	3,051,757	2,396,439	419,236	13,710,609	37,695	20,496,281
Accumulated amortization:							
Opening balance	$ 772,161	$ 2,600,870	$ 2,350,156	$ 372,241	$ 11,393,400	$ 26,519	$ 17,515,347
Amortization	10,838	85,551	6,943	16,613	270,127	2,235	392,307
Closing balance	782,999	2,686,421	2,357,099	388,854	11,663,527	28,754	17,907,654
Net book value	$ 97,546	$ 365,336	$ 39,340	$ 30,382	$ 2,047,082	$ 8,941	$ 2,588,627

7. Credit facility:

The Corporation has a revolving demand credit facility bearing interest at prime plus 0.50% per annum. The available facility is to a maximum of $500,000. As at March 31, 2016 no amount was drawn on this credit facility (2015 - nil).

8. Commitments:

Satellite transmission service

The Corporation acquires satellite transmission services at an annual cost of approximately $360,473 under agreements covering a four year period ending August 31, 2016.

Production costs

The Corporation acquires programs that require the commitment of funds. As at March 31, 2016, the Corporation is committed to pay $1,495,169 (2015 - $1,784,961) for license fees over the period from April 2016 to March 2018.

9. Related party transactions:

The Corporation is related through common control to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities and Crown corporations. Transactions with these entities, considered to be in the normal course of operations, are recorded at the exchange amount.

In the normal course of operations, the Corporation pays rent to the British Columbia Technical Institute of Technology, a Provincially controlled post-secondary institution, of $1 per annum and its share of the building operating costs totaling $252,400 (2015 - $250,821).

Included in accounts receivable as at March 31, 2015 was $400,000 related to a loan due from KWCC, representing the 50% portion of the $800,000 loan balance attributable to the unrelated partner. The loan was fully repaid during the year ended March 31, 2016. The loan was unsecured and bore interest at prime plus 2% per annum.

Included in accounts receivable is $78,824 (2015 - $49,825) related to advances, fees, and interest receivable from KWCC.

10. Expense Presentation:

For reporting purposes, the Corporation's activities have been aggregated into operational categories. The schedule of consolidated expenses by object reports the revenues and expenses that are directly attributable to each operational category. The revenues and expenses that cannot be directly attributable or allocated on a reasonable basis to individual categories are reported in General category. The following describes the activities of each area:

Programing and presentation

This category includes salaries and benefits costs of staff responsible for the acquisition of broadcast rights, management and design of broadcast content including branding, captioning of programs, and management of broadcast traffic. This category also includes the cost of contracted editors hired to create promotional content.

Marketing and development

This category includes salaries and benefits costs of staff responsible for administering our Partners' donations and Knowledge Endowment Fund. This includes other operating costs related to the servicing of our donors such as the production and distribution of the program guide.

This category also includes salaries and benefits costs of staff responsible for maintaining government reporting requirements, reporting on audience and viewership results and implementing our marketing plans.

Broadcast platforms and corporate IT

This category includes salaries and benefits costs of staff responsible for the maintenance and administration of the broadcast platforms and corporate information technology infrastructures. This category also includes operating costs related to the distribution of our broadcast signal to our audiences.

General

This category includes amortization of tangible capital assets and other administrative expenses.

Administration

This category includes salaries and benefits costs of staff responsible for overall administration, finance, and human resources. Operating costs also include the Corporation's share of leased facilities costs, and the costs of training and professional development of our staff.

Specialty TV channel

This category represents the operations of the BBC Kids tier 2 digital specialty channel via KWCC. BBC Kids is available to Canadian cable and Internet TV subscribers.

11. Pensions:

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan ("The Plans"), jointly trusteed pension plans. The boards of trustees for these plans, representing plan members and employers, are responsible for overseeing the management of the Plans, including investment of the assets and administration of benefits. The Plans are multi-employer contributory pension plans. Basic pension benefits provided are based on formulas. The College Pension Plan has about 13,580 active members from college senior administration and instructional staff and approximately 6,025 retired members. The Municipal Pension Plan has about 179,000 active members and approximately 71,000 retired members.

Active College Pension Plan members include approximately 23 contributors, and active Municipal Pension Plan members include approximately 33 contributors from the Corporation.

The most recent valuation for the College Pension Plan as at August 31, 2012 indicated an unfunded liability of $105 million for basic benefits. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2012 indicated a $1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016.

Employers participating in the Plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plans record accrued liabilities and accrued assets for the Plans in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plans.

The Corporation paid $330,170 (2015 - $333,694) for employer contributions while employees contributed $315,339 (2015 - $303,620) to the Plans in fiscal 2016.

12. Financial instruments risks:

The Corporation, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a description of those risks at March 31, 2016.

(a) Credit risk:

Credit risk is the risk that the Corporation will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject the Corporation to credit risk consist primarily of cash, portfolio investments, endowment investments and accounts receivable. The Corporation has an investment policy to ensure investments are managed appropriately to secure the preservation of capital and the availability of liquid funds. The Corporation has also retained an investment firm to invest surplus funds in accordance with its investment policy. The receivables are due from various entities and individuals, thus the Corporation is not subject to concentration of credit risk.

12. Financial instruments risks (continued):

(b) Foreign exchange risk:

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation's exposure to foreign exchange risk is limited to cash held in US dollar bank accounts as noted in Note 3(a).

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Investments bear some interest rate risk as the market price of fixed income securities may fluctuate based on changes in interest rates (Note 3(b)).

(d) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market (Note 3(b)). The Corporation is exposed to fair value risks on its investments in equity instruments.

(e) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The Corporation maintains adequate levels of working capital to ensure all its obligations can be met when they fall due.

13. Accumulated surplus:

Accumulated surplus is comprised of the following:

	2016	2015
Invested in tangible capital assets	$ 1,078,827	$ 1,107,831
Invested in broadcast rights	8,395,930	7,603,039
Endowment funds	3,965,059	2,842,332
Unrestricted amounts	1,880,320	2,728,701
Balance, end of year	$ 15,320,136	$ 14,281,903

14. Budget figures:

Budget figures are provided for comparison purposes and have been derived from the budget approved by the Board of Directors on February 27, 2015.

KNOWLEDGE NETWORK CORPORATION

Schedule of consolidated expenses by object

Year ended March 31, 2016, with comparative information for 2015

	Programming and presentation	Marketing and development	Broadcast platforms and Corporate IT	General	Amortization of broadcast rights	Administration	Specialty TV channel	2016 consolidated	Budget consolidated	2015 consolidated
Salaries and benefits	$ 1,300,736	$ 887,743	$ 1,368,662	$ 101,515	$ -	$ 824,175	$ 76,764	$ 4,559,595	$ 4,361,749	$ 4,309,366
Amortization of capital assets and broadcast rights	-	-	-	352,086	2,845,581	-	664,448	3,862,115	4,143,750	4,033,282
Purchased services	518,893	692,575	261,589	13,402	-	62,543	130,190	1,679,192	1,406,662	1,376,496
Supplies, shipping, minor software, maintenance	46,906	437,244	729,806	28,772	-	15,821	92,012	1,350,561	1,234,477	1,338,495
Travel, miscellaneous, other	49,801	125,102	20,138	42,147	-	113,194	13,166	363,548	618,132	341,916
Facilities operating costs, rental	-	-	-	-	-	252,400	-	252,400	264,000	250,821
Income taxes	-	-	-	-	-	-	57,873	57,873	47,021	53,852
	$ 1,916,336	$ 2,142,664	$ 2,380,195	$ 537,922	$ 2,845,581	$ 1,268,133	$ 1,034,453	$ 12,125,284	$ 12,075,791	$ 11,704,228